

CITY OF UNDERWOOD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

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CITY OF UNDERWOOD

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Dennis Bardsley	Mayor	January 2010
Robert Dose	Mayor Pro-Tem	January 2012
Edward Freuck	Council Member	January 2010
Jim Pingel	Council Member	January 2010
Todd Erwin	Council Member	January 2012
Rhonda Johnson	Council Member	January 2012
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite
(After January 2010)		
Dennis Bardsley	Mayor	January 2012
Robert Dose	Mayor Pro-Tem	January 2012
Edward Freuck	Council Member	January 2014
Jim Pingel	Council Member	January 2014
Todd Erwin	Council Member	January 2012
Rhonda Johnson	Council Member	January 2012
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Indefinite
Matthew Woods	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 10, 2010

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Underwood's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

CITY OF UNDERWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

As management of the City of Underwood, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2010. This section should be read in conjunction with the financial statements and the accompanying notes that follow.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Fund financial statements: The financial statement for governmental funds is the statement of cash receipts, disbursements and changes in cash balances. It is organized by funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the sewer and sanitation funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of significant changes in financial position and fund balances: The cash balances of the City's governmental activities decreased 14% from the prior year for a net change of \$108,089 for the year ended June 30, 2010. The majority of this decrease is due primarily to the purchase of the Titan ambulance by the rescue department.

The following are the changes in the cash balances of the City's governmental activities:

Changes in Cash Basis Net Assets of Governmental Activities				
	Year Ended June 30, 2010		Year Ended June 30, 2009	
Receipts:				
Program receipts:				
Charges for services	\$	25,080	\$	26,388
Operating grants, contributions and restricted interest		155,637		169,160
Capital grants, contributions and restricted interest		2,553		257,197
General receipts:				
Property tax		293,877		280,734
Tax increment financing		123,215		107,394
Local option sales tax		70,550		80,432
Unrestricted investment earnings		-0-		6,439
Miscellaneous		12,188		855
Bond proceeds - net		-0-		(34,900)
Sale of property		9,500		-0-
Total receipts		692,600		893,699
Disbursements:				
Public safety		244,484		48,252
Public works		114,943		95,392
Culture and recreation		28,358		22,519
Community and economic development		137,592		147,032
General government		129,953		126,105
Debt service		127,722		107,177
Capital projects		-0-		372,950
Total disbursements		783,052		919,427
Change in cash basis net assets before transfers		(90,452)		(25,728)
Transfers, net		(17,637)		(20,108)
Change in cash basis net assets		(108,089)		(45,836)
Cash basis net assets, beginning of year		793,944		839,780
Cash basis net assets, end of year	\$	685,855	\$	793,944

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash basis of the net assets of the City's business type activities increased 17% from the prior year for a net change of \$41,867 for the year ended June 30, 2010.

The following are the changes in the cash basis of the net assets of the City's business type activities:

Changes in Cash Basis Net Assets of Business Type Activities			
	Year Ended June 30,		Year Ended June 30,
	2010		2009
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$	102,639	\$ 115,077
Garbage		39,079	38,030
Operating grants, contributions and restricted interest		-0-	-0-
Capital grants, contributions And restricted interest		-0-	-0-
General receipts:			
Restricted interest		49	32
Total receipts		<u>141,767</u>	<u>153,139</u>
Disbursements:			
Sewer		83,444	86,211
Garbage		<u>34,093</u>	<u>32,845</u>
Total disbursements		<u>117,537</u>	<u>119,056</u>
Change in cash basis net assets before transfers		24,230	34,083
Transfers, net		<u>17,637</u>	<u>20,108</u>
Change in cash basis net assets		<u>41,867</u>	<u>54,191</u>
Cash basis net assets, beginning of year		<u>242,400</u>	<u>188,209</u>
Cash basis net assets, end of year	\$	<u>284,267</u>	\$ <u>242,400</u>

Analysis between actual and budget amounts: The City adopted its budget on March 10, 2009 and amended its budget on March 9, 2010. For the year ended June 30, 2010, disbursements did exceed amounts budgeted in the culture and recreation function.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2010, the City had \$714,855 in general obligation notes and other long term debt compared to \$828,045 as of June 30, 2009, as shown below.

Outstanding Debt				
	Year Ended June 30, 2010		Year Ended June 30, 2009	
General obligation notes	\$	714,855	\$	810,154
Revenue bonds		-0-		17,891
Total	\$	714,855	\$	828,045

The City paid \$113,190 and \$32,947 for principal and interest, respectively, for the year ended June 30, 2010. The City's general obligation debt did not exceed its constitutional debt limit of approximately \$1.2 million at June 30, 2010.

Future financial statement impact: The major project of the City for fiscal year 2011 is the estimated \$516,000 sanitary sewer improvement project.

Requests for information: Requests for additional information can be made to the Underwood City Clerk, Kelly Groskurth, at 218 2nd Street, Underwood, Iowa 51576.

BASIC FINANCIAL STATEMENTS

CITY OF UNDERWOOD

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 244,484	\$ 20,690	\$ 77,434	\$ -0-
Public works	114,943	-0-	76,380	-0-
Cultures and recreation	28,358	725	-0-	-0-
Community and economic development	137,592	-0-	74	-0-
General government	129,953	3,665	1,749	-0-
Debt service	127,722	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	2,553
Total governmental activities	783,052	25,080	155,637	2,553
Business type activities:				
Sewer	83,444	102,639	-0-	-0-
Garbage	34,093	39,079	-0-	-0-
Total business type activities	117,537	141,718	-0-	-0-
Total	\$ 900,589	\$ 166,798	\$ 155,637	\$ 2,553

Property taxes levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted investment earnings
 Miscellaneous
 Sale of assets
 Transfers
 Total general receipts

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net assets

Expendable:
 Streets
 Urban renewal
 Debt service
 Capital projects
 Other purposes
 Unrestricted
 Total cash basis net assets

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>					
<u>Governmental</u>		<u>Business Type</u>		<u>Total</u>	
<u>Activities</u>		<u>Activities</u>			
\$	(146,360)	\$	-0-	\$	(146,360)
	(38,563)		-0-		(38,563)
	(27,633)		-0-		(27,633)
	(137,518)		-0-		(137,518)
	(124,539)		-0-		(124,539)
	(127,722)		-0-		(127,722)
	2,553		-0-		2,553
	<u>(599,782)</u>		<u>-0-</u>		<u>(599,782)</u>
	-0-		19,195		19,195
	<u>-0-</u>		<u>4,986</u>		<u>4,986</u>
	<u>-0-</u>		<u>24,181</u>		<u>24,181</u>
	(599,782)		24,181		(575,601)
	201,602		-0-		201,602
	92,275		-0-		92,275
	123,215		-0-		123,215
	70,550		-0-		70,550
	-0-		49		49
	12,188		-0-		12,188
	9,500		-0-		9,500
	<u>(17,637)</u>		<u>17,637</u>		<u>-0-</u>
	<u>491,693</u>		<u>17,686</u>		<u>509,379</u>
	(108,089)		41,867		(66,222)
	<u>793,944</u>		<u>242,400</u>		<u>1,036,344</u>
\$	<u>685,855</u>	\$	<u>284,267</u>	\$	<u>970,122</u>
\$	233,322	\$	-0-	\$	233,322
	59,055		-0-		59,055
	4,551		-0-		4,551
	-0-		-0-		-0-
	15,890		-0-		15,890
	<u>373,037</u>		<u>284,267</u>		<u>657,304</u>
\$	<u>685,855</u>	\$	<u>284,267</u>	\$	<u>970,122</u>

See notes to financial statements.

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

		<u>Special Revenue</u>	
		Road Use Tax	Urban Renewal Tax Increment
	General		
Receipts:			
Property tax	\$ 158,535	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	123,215
Other city tax	-0-	-0-	-0-
Licenses and permits	7,920	-0-	-0-
Use of money and property	1,518	-0-	74
Intergovernmental	77,848	76,196	-0-
Charges for services	14,424	-0-	-0-
Special assessments	80	-0-	-0-
Miscellaneous	14,845	-0-	-0-
Total receipts	<u>275,170</u>	<u>76,196</u>	<u>123,289</u>
Disbursements:			
Operating:			
Public safety	244,484	-0-	-0-
Public works	-0-	109,598	-0-
Culture and recreation	23,317	-0-	-0-
Community and economic development	16,366	-0-	121,058
General government	91,734	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>375,901</u>	<u>109,598</u>	<u>121,058</u>
Excess (deficiency) of receipts over (under) disbursements	(100,731)	(33,402)	2,231
Other financing sources (uses):			
Sale of assets	9,500	-0-	-0-
Operating transfers in	-0-	76,247	-0-
Operating transfers out	(39,998)	-0-	-0-
Total other financing sources (uses)	<u>(30,498)</u>	<u>76,247</u>	<u>-0-</u>
Net change in cash balances	(131,229)	42,845	2,231
Cash balances, beginning of year	<u>504,266</u>	<u>190,477</u>	<u>56,824</u>
Cash balances, end of year	\$ <u>373,037</u>	\$ <u>233,322</u>	\$ <u>59,055</u>
 Cash Basis Fund Balances			
Reserved for debt service	\$ -0-	\$ -0-	\$ -0-
Unreserved:			
General fund	373,037	-0-	-0-
Special revenue funds	-0-	233,322	59,055
Capital projects	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>373,037</u>	\$ <u>233,322</u>	\$ <u>59,055</u>

See notes to financial statements.

EXHIBIT B

	Debt Service	Other Non-major Governmental Funds	Total
\$	92,275	\$ 43,067	\$ 293,877
	-0-	-0-	123,215
	-0-	70,550	70,550
	-0-	-0-	7,920
	-0-	-0-	1,592
	-0-	2,553	156,597
	-0-	-0-	14,424
	-0-	-0-	80
	-0-	-0-	14,845
	<u>92,275</u>	<u>116,170</u>	<u>683,100</u>
	-0-	-0-	244,484
	-0-	5,345	114,943
	-0-	5,041	28,358
	-0-	168	137,592
	-0-	38,219	129,953
	127,722	-0-	127,722
	-0-	-0-	-0-
	<u>127,722</u>	<u>48,773</u>	<u>783,052</u>
	(35,447)	67,397	(99,952)
	-0-	-0-	9,500
	39,998	-0-	116,245
	-0-	(93,884)	(133,882)
	<u>39,998</u>	<u>(93,884)</u>	<u>(8,137)</u>
	4,551	(26,487)	(108,089)
	-0-	42,377	793,944
\$	<u>4,551</u>	\$ <u>15,890</u>	\$ <u>685,855</u>
\$	4,551	\$ -0-	\$ 4,551
	-0-	-0-	373,037
	-0-	15,890	308,267
	-0-	-0-	-0-
\$	<u>4,551</u>	\$ <u>15,890</u>	\$ <u>685,855</u>

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 102,105	\$ 39,079	\$ 141,184
Special assessment	527	-0-	527
Miscellaneous	7	-0-	7
Total receipts	<u>102,639</u>	<u>39,079</u>	<u>141,718</u>
Operating disbursements:			
Business type activities	<u>65,030</u>	<u>34,093</u>	<u>99,123</u>
Total disbursements	<u>65,030</u>	<u>34,093</u>	<u>99,123</u>
Operating income	37,609	4,986	42,595
Non-operating receipts (disbursements):			
Interest	49	-0-	49
Debt service	<u>(18,414)</u>	<u>-0-</u>	<u>(18,414)</u>
Total non-operating receipts (disbursements)	<u>(18,365)</u>	<u>-0-</u>	<u>(18,365)</u>
Excess (deficiency) of receipts over (under) disbursements	19,244	4,986	24,230
Other financing sources (uses):			
Operating transfer in	<u>17,637</u>	<u>-0-</u>	<u>17,637</u>
Net change in cash balance	36,881	4,986	41,867
Cash balances, beginning of year	<u>225,402</u>	<u>16,998</u>	<u>242,400</u>
Cash balances, end of year	\$ <u>262,283</u>	\$ <u>21,984</u>	\$ <u>284,267</u>
Cash Basis Fund Balances			
Unreserved	\$ <u>262,283</u>	\$ <u>21,984</u>	\$ <u>284,267</u>
Total cash basis fund balances	\$ <u>262,283</u>	\$ <u>21,984</u>	\$ <u>284,267</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The City of Underwood is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Underwood has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(11) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Underwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. As of June 30, 2010, disbursements exceed amounts budgeted in the culture and recreation function

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(1) Summary of Significant Accounting Policies (Continued)

D. Property Tax Calendar

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City as collected on a monthly basis.

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2010, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$970,122 as of June 30, 2010.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2011	\$ 111,198	\$ 26,402
2012	108,163	22,389
2013	93,785	18,904
2014	71,063	15,739
2015	77,107	13,169
2016	78,540	10,147
2017	55,000	7,350
2018	60,000	5,040
2019	60,000	2,520
Total	\$ 714,856	\$ 121,660

Interest costs paid during the year ended June 30, 2010 totaled \$32,947.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$1.2 million which was not exceeded during the year ended June 30, 2010.

General Obligation Street Improvement Note, 2001

On November 20, 2001, the City financed a street paving project through a local bank. The \$170,000 note bears interest at 4.75%, requires 19 semiannual installments of \$10,801, and matures December 1, 2011.

General Obligation Street Improvement Note, 2003

On June 16, 2003, the City financed the 2nd Avenue street paving project through a local bank. The \$150,000 note bears interest at 3.86%, requires 19 semiannual installment of \$9,111, and matures June 16, 2013.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(3) Bonds and Notes Payable (Continued)

General Obligation Fire Rescue Vehicle Note, 2003

On February 28, 2003, the City financed the purchase of a fire rescue vehicle with a local bank. The \$100,000 note bears interest at 4.27%, requires semiannual installments of \$6,155, and matures January 1, 2013.

General Obligation Fire Equipment Note, 2007

On June 21, 2007, the City financed the purchase of a pumper truck with a local bank. The \$174,000 note bears interest at 4.90%, requires semiannual installments of \$12,038, and matures June 1, 2016.

General Obligation Corporate Purpose Bonds, Series 2009

On April 15, 2009, the City issued bonds to finance street repairs to 3rd Street and the purchase of an ambulance. The \$495,000 bonds bear interest ranging from 2.25% to 4.20%, requires semiannual installments of interest and annual retirements of bonds (approximately \$65,000 annually), and matures June 1, 2019.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$6,599, \$5,475, and \$4,969, respectively, equal to the required contributions for each year.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides a medical/prescription drug benefits for retirees and their spouses. There are 2 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-basis. The most recent active member monthly premiums of the City and plan members are \$920 for family coverage. For the year ended June 30, 2010, the City contributed \$17,087 and the plan members eligible for benefits contributed \$4,831.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2010</u>
Vacation	\$ 1,249
Comp time	<u>1,544</u>
	<u>\$ 2,793</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$4,626 during the year ended June 30, 2010.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

Transfer to	Transfer from	Amount
Special Revenue - Road Use	Special Revenue - Local Option	\$ 52,913
Enterprise - Sewer	Special Revenue - Local Option	17,637
Special Revenue - Road Use	Special Revenue - Emergency	15,000
Debt Service	General Fund	39,998
Special Revenue - Road Use	Capital Projects	8,334
Total		<u>\$ 133,882</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(9) Risk Management (Continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2010 were \$19,624.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage of \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(9) Risk Management (Continued)

The City also carries workers' compensation insurance purchased from the Iowa Municipalities Workers' Compensation Association, IMWCA. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal Tax Increment Financing Development Agreements

Fieldcrest Development Agreement

On December 10, 2003, the City entered into a development agreement with McKee Contracting. The developer agreed to construct residential infrastructure such as storm sewers, pavement, sanitary sewers, hydrants, and streetlights in the Fieldcrest Urban Renewal Area of the City. The residential development is structured in six phases over sixteen years at an approximate cost of \$1.7 million. The developer requested and the City agreed to make economic development tax increment payments to the developer each year during the term of the agreement. For the year ended June 30, 2010, the City rebated \$22,018 to McKee Contracting. The City certifies to the County Auditor by December 1 of each year the following year's tax increment financing request. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa, the City retains 35.1% of the incremental tax receipts for the purpose of providing assistance to low and moderate income households. For the year ended June 30, 2010, the City received \$37,217 of tax increment financing receipts and retained the required percentage per terms of the agreement.

Eagle Landing Development Agreement

On January 9, 2001, the City entered into a development agreement with HLH Development, L.C. The developer agreed to construct infrastructure within the City's Urban Renewal Area South legally described as Eagle Landing Subdivision for the purpose of constructing housing units. In exchange, the City agreed to rebate to the developer semi-annual economic development tax increment payments based upon eligible costs of approximately \$300,785 plus interest of 6% per annum calculated from December 1, 2000. For the year ended June 30, 2010, the City rebated \$70,061 incremental taxes to HLH Development, L.C. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa the City retains 20% of the incremental tax receipts to provide assistance related to housing for low and moderate income families. For the year ended June 30, 2010, the City received \$85,998 of tax increment financing receipts and retained the required percentage per terms of the agreement.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(11) Commitments

The City renewed an agreement for law enforcement services with Pottawattamie County. The fee for the year ended June 30, 2010 was \$12,040.

The City has extended an agreement with M & K Tree Service, Inc. for solid waste collection through 2015 at a cost of \$9.75 (with annual optional incremental fuel increases) per month per household or commercial unit.

(12) Grants

On May 11, 2010, the City was awarded a Community Improvements To Increase Economic Stability (CITIES) Grant from the Pottawattamie County Board of Supervisors. The \$199,908 grant requires a 50% match from the City and will finance in part the sewer rehabilitation project. The grant expires October 31, 2011. No funds were received for the year ended June 30, 2010.

(13) Restatement of Prior Year Balances

Prior year note balances on the Schedule of Indebtedness have been restated as follows:

		Previously Reported 6/30/09	Adjustment	As Restated 6/30/09
Street Improvements	\$170,000	\$ 50,342	\$ (189)	\$ 50,153
Street Improvements	\$150,000	67,100	(107)	66,993
Special Service Truck	\$100,000	39,694	(28)	39,666
Street Improvements	\$75,000	17,045	(45)	17,000
Fire Trust	\$174,000	142,016	(674)	141,342
Combined Issue	\$490,000	495,000	-0-	495,000
Revenue Note	\$110,000	18,095	(204)	17,891
Total		<u>\$ 829,292</u>	<u>\$ (1,247)</u>	<u>\$ 828,045</u>

Note balances were confirmed with People's National Bank and Bankers Trust Company for the years ended June 30, 2009 and 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

BUDGETARY COMPARISON SCHEDULE

OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -

BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 293,877	\$ -0-
Tax increment financing	123,215	-0-
Other city tax	70,550	-0-
Licenses and permits	7,920	-0-
Use of money and permits	1,592	49
Intergovernmental	156,597	-0-
Charges for services	14,424	141,184
Special assessments	80	527
Miscellaneous	14,845	7
Total receipts	<u>683,100</u>	<u>141,767</u>
Disbursements:		
Public safety	244,484	-0-
Public works	114,943	-0-
Health and social services	-0-	-0-
Culture and recreation	28,358	-0-
Community and economic development	137,592	-0-
General government	129,953	-0-
Debt service	127,722	-0-
Capital projects	-0-	-0-
Business type	-0-	117,537
Total disbursements	<u>783,052</u>	<u>117,537</u>
Excess (deficiency) of receipts over (under) disbursements	(99,952)	24,230
Other financing sources, net	<u>(8,137)</u>	<u>17,637</u>
Excess (deficiency) of receipts and other financing sources	(108,089)	41,867
Balance beginning of year	<u>793,944</u>	<u>242,400</u>
Balance end of year	<u>\$ 685,855</u>	<u>\$ 284,267</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
\$ 293,877	\$ 285,710	\$ 280,909	\$ 12,968
123,215	125,020	121,014	2,201
70,550	68,697	95,297	(24,747)
7,920	7,450	7,450	470
1,641	5,250	1,600	41
156,597	136,000	140,500	16,097
155,608	179,750	164,850	(9,242)
607	-0-	-0-	607
14,852	1,208	1,208	13,644
<u>824,867</u>	<u>809,085</u>	<u>812,828</u>	<u>12,039</u>
244,484	66,950	268,886	24,402
114,943	179,734	190,010	75,067
-0-	-0-	-0-	-0-
28,358	27,100	27,100	(1,258)
137,592	147,000	153,500	15,908
129,953	177,105	162,866	32,913
127,722	120,554	132,864	5,142
-0-	-0-	-0-	-0-
117,537	158,025	158,025	40,488
<u>900,589</u>	<u>876,468</u>	<u>1,093,251</u>	<u>192,662</u>
(75,722)	(67,383)	(280,423)	204,701
<u>9,500</u>	<u>-0-</u>	<u>-0-</u>	<u>9,500</u>
(66,222)	(67,383)	(280,423)	214,201
<u>1,036,344</u>	<u>955,072</u>	<u>1,036,344</u>	<u>-0-</u>
\$ <u>970,122</u>	\$ <u>887,689</u>	\$ <u>755,921</u>	\$ <u>214,201</u>

CITY OF UNDERWOOD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$3,743 and disbursements by \$216,783. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the culture and recreation function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue	
	Emergency	Employee Benefits
Receipts:		
Property tax	\$ 4,812	\$ 19,220
Other city tax	-0-	-0-
Intergovernmental	-0-	-0-
Total receipts	4,812	19,220
Disbursements:		
Operating:		
Public works	-0-	5,345
Culture and recreation	-0-	5,041
Community and economic development	-0-	168
General government	-0-	18,595
Total disbursements	-0-	29,149
Excess (deficiency) of receipts over (under) disbursements	4,812	(9,929)
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	(15,000)	-0-
Net financing sources (uses)	(15,000)	-0-
Net change in cash balances	(10,188)	(9,929)
Cash balances beginning of year	17,867	17,688
Cash balances end year	\$ 7,679	\$ 7,759
Cash Basis Fund Balances		
Unreserved:		
Special revenue	\$ 7,679	\$ 7,759
Capital projects	-0-	-0-
Total cash basis fund balances	\$ 7,679	\$ 7,759

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Special Revenue			
Insurance	Local Option Sales Tax	Capital Projects	Total
\$ 19,035	\$ -0-	\$ -0-	\$ 43,067
-0-	70,550	-0-	70,550
-0-	-0-	2,553	2,553
19,035	70,550	2,553	116,170
-0-	-0-	-0-	5,345
-0-	-0-	-0-	5,041
-0-	-0-	-0-	168
19,624	-0-	-0-	38,219
19,624	-0-	-0-	48,773
(589)	70,550	2,553	67,397
-0-	-0-	-0-	-0-
-0-	(70,550)	(8,334)	(93,884)
-0-	(70,550)	(8,334)	(93,884)
(589)	-0-	(5,781)	(26,487)
1,041	-0-	5,781	42,377
\$ 452	\$ -0-	\$ -0-	\$ 15,890
\$ 452	\$ 0-	\$ -0-	\$ 15,890
-0-	-0-	-0-	-0-
\$ 452	\$ -0-	\$ -0-	\$ 15,890

CITY OF UNDERWOOD
SCHEDULE OF INDEBTEDNESS

JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Street Improvement Note	November 20, 2001	4.75 %	\$ 170,000
Street Improvement Note	June 16, 2003	3.86 %	150,000
Street Improvement Note	February 24, 2006	3.95 %	75,000
Fire Rescue Vehicle Note	February 28, 2003	4.27 %	100,000
Fire Equipment Note	June 21, 2007	4.90 %	174,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20 %	495,000
Revenue notes:			
Sewer Revenue Note	February 28, 2003	4.10 %	\$ 110,000

See accompanying independent auditor's report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 50,153	\$ -0-	\$ 19,448	\$ 30,705	\$ 2,154	\$ 122
66,993	-0-	15,779	51,214	2,444	76
17,000	-0-	17,000	-0-	648	-0-
39,666	-0-	10,841	28,825	1,469	-0-
141,342	-0-	17,230	124,112	6,847	507
495,000	-0-	15,000	480,000	18,862	1,366
<u>\$ 810,154</u>	<u>\$ -0-</u>	<u>\$ 95,298</u>	<u>\$ 714,856</u>	<u>\$ 32,424</u>	<u>\$ 2,071</u>
17,891	-0-	17,891	-0-	523	-0-
<u>\$ 17,891</u>	<u>\$ -0-</u>	<u>\$ 17,891</u>	<u>\$ -0-</u>	<u>\$ 523</u>	<u>\$ -0-</u>

CITY OF UNDERWOOD

DEBT MATURITIES

JUNE 30, 2010

General Obligation Notes and Bonds

Year Ending June 30,	Street Improvements Issued November 20, 2001		Street Improvements Issued June 16, 2003		Ambulance Note Issued Feb. 28, 2003	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2011	4.75%	\$ 20,383	3.86%	\$ 16,403	4.27%	\$ 11,196
2012	4.75%	10,322	3.86%	17,042	4.27%	11,680
2013	--	-0-	3.86%	17,769	4.27%	5,949
2014	--	-0-	--	-0-	--	-0-
2015	--	-0-	--	-0-	--	-0-
2016	--	-0-	--	-0-	--	-0-
2017	--	-0-	--	-0-	--	-0-
2018	--	-0-	--	-0-	--	-0-
2019	--	-0-	--	-0-	--	-0-
Total		\$ <u>30,705</u>		\$ <u>51,214</u>		\$ <u>28,825</u>

Year Ending June 30,	Fire Truck Note Issued June 21, 2007		Essential Corporate Purpose Bonds Issued April 15, 2009		Total
	Interest Rate	Amount	Interest Rate	Amount	
2011	4.90%	\$ 18,216	2.25%	\$ 45,000	\$ 111,198
2012	4.90%	19,119	2.25%	50,000	108,163
2013	4.90%	20,067	3.05%	50,000	93,785
2014	4.90%	21,063	3.05%	50,000	71,063
2015	4.90%	22,107	3.50%	55,000	77,107
2016	4.90%	23,540	3.50%	55,000	78,540
2017	--	-0-	4.20%	55,000	55,000
2018	--	-0-	4.20%	60,000	60,000
2019	--	-0-	4.20%	60,000	60,000
Total		\$ <u>124,112</u>		\$ <u>480,000</u>	\$ <u>714, 856</u>

See Accompanying Independent Auditor's Report.

CITY OF UNDERWOOD

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

FOR THE LAST SIX YEARS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:			
Property taxes	\$ 293,877	\$ 270,827	\$ 256,042
Tax increment financing	123,215	107,394	105,459
Other city taxes	70,550	90,339	77,247
License and permits	7,920	10,133	14,064
Use of money and property	1,592	6,600	16,071
Intergovernmental	156,597	391,438	203,803
Charges for service	14,424	16,255	10,954
Special assessments	80	-0-	461
Miscellaneous	<u>14,845</u>	<u>35,613</u>	<u>3,946</u>
Total	\$ <u>683,100</u>	\$ <u>928,599</u>	\$ <u>688,047</u>
Disbursements:			
Operating:			
Public safety	\$ 244,484	\$ 48,252	\$ 63,655
Public works	114,943	95,392	90,412
Health and social services	-0-	-0-	-0-
Culture and recreation	28,358	22,519	15,818
Comm and economic dev	137,592	147,032	160,643
General government	129,953	126,105	122,462
Debt service	127,722	107,177	98,114
Capital projects	<u>-0-</u>	<u>372,950</u>	<u>249,091</u>
Total	\$ <u>783,052</u>	\$ <u>919,427</u>	\$ <u>800,195</u>

See accompanying independent auditor's report.

SCHEDULE 4

	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$	231,541	\$ 212,017	\$ 205,970
	112,347	76,287	98,565
	85,383	90,562	76,458
	5,840	7,936	8,683
	12,858	3,378	1,252
	154,660	129,724	148,400
	9,893	15,763	37,616
	-0-	15	168
	<u>20,544</u>	<u>28,412</u>	<u>10,762</u>
\$	<u>633,066</u>	\$ <u>564,094</u>	\$ <u>587,874</u>

\$	244,708	\$ 165,080	\$ 80,432
	41,769	61,710	96,443
	-0-	-0-	650
	22,324	12,380	23,735
	123,243	107,790	97,029
	116,766	126,730	112,466
	96,850	91,668	125,109
	<u>28,072</u>	<u>85,151</u>	<u>-0-</u>
\$	<u>673,732</u>	\$ <u>650,509</u>	\$ <u>535,864</u>

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

September 10, 2010

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARD

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Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 10, 2010. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Underwood's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Underwood's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control over financial reporting I consider to be a material weakness and another deficiency I consider to be a significant deficiency.

Continued . . .

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA Private Companies Practice Section

To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part II of the accompanying Schedule of Findings as items II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in Part II of the accompanying Schedule of Findings as item II-B-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Underwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Continued . . .

September 10, 2010:
Page Three

To the Honorable Mayor and
Members of the City Council

The City of Underwood's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Underwood's responses, I did not audit the City of Underwood's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Underwood and other parties to whom the City of Underwood may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Underwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy Associates, CPA, P.C.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-10 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city clerk and a part time deputy clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part II: Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

II-B-10 Unbudgeted Ambulance Purchase

Comment - It was noted that on July 1, 2009, the City purchased a Titan Ambulance and issued a check for \$192,489 which effectively put the public safety function over budget on the first day of the fiscal year. The public safety function remained over budget until March 9, 2010 when the budget was amended. In effect, the ambulance purchase was never budgeted to begin with.

Recommendation - Major purchases such as the ambulance should be budgeted before purchased.

Response - Budgeting the ambulance purchase was inadvertently overlooked. Major purchases such as vehicles will be budgeted before purchase in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the culture and recreation function. In addition, disbursements exceeded amount budgeted in the public safety function before the budget was amended on March 9, 2010. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 684.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be monitored and amended timely in the future, if applicable.

Conclusion - Response accepted.

III-B-10 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-10 Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2010 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Tenningkeit, Planning & Zoning, Owner of Bluffs Electric	Electrical work	\$ 2,831
Todd Erwin, Councilor	Snow removal	\$ 192
James Pingel, Councilor	Snow removal	\$ 414
	Generator Reimbursement	\$ 1,189

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Planning and Zoning Committee member may represent a conflict of interest since total transactions with the individual were greater than \$2,500 during the fiscal year. However, no particular job exceeded \$2,500 during the fiscal year.

III-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-10 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

It was noted, however, that gross wages were not published and that no minutes for the year ended June 30, 2010 were in the minute book.

Recommendation - Minutes should be signed and filed in the minute book monthly, individual wages should be published as required by Chapter 21 of the Code of Iowa.

Response - We will comply with the Code requirements and publish minutes and salaries as required.

Conclusion - Response accepted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

- III-G-10 Revenue Notes - The City is in compliance with the provisions of the sewer revenue note resolution.
- III-H-10 Deposits and Investments - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

